

Direct Account
Backhauling Issues
RJR Position Statement



Tobacco Company

Backhaul: Definition

A Direct Buying Customer utilizing their trucks to pick up product from a bonded public warehouse or directly from the manufacturers distribution center.

Backhaul: Issues

- ◆ Many Direct Accounts have expressed interest in picking up product themselves either at the Public Warehouse or at our Central Distribution Center in Winston-Salem (Backhauling) versus Public Warehouse delivery to them
- ◆ Direct Account Perception is a cost savings to RJR of as much as 10¢ per carton, thus,
- ◆ Direct Accounts that could perform this function would then participate in the cost savings and both our Directs and RJR could benefit

RJR Backhaul: Position

- ◆ Title of Ownership passes to Customer when truck leaves Public Warehouse or CDC, Exposing Direct Account to Product Liability
- ◆ Pick Up driver would be required to load and count product, sign each bill of lading "loaded without exception", and be responsible for financial consequences from product damage and/or theft
- ◆ Backhaul is Prohibited (by law) in 18 States*

RJR Backhaul: Position (continued)

<p>* Must be Contacted On <u>Each Request</u> D.C. Florida Georgia Indiana Kansas Massachusetts Montana New Jersey North Carolina Ohio Oklahoma</p>	<p>Approval <u>Denied</u> Alabama Kentucky Louisiana Missouri North Dakota Texas</p>	<p>No Reply Received Will Contact On <u>Each Request</u> Mississippi</p>
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RJR Backhaul: Position (continued)

- ◆ The cost impact to our Direct Buying Customers of insuring loss/damage coverage would be excessive.
- ◆ Unloading, sorting, and product segregation services performed by the Public Warehouse carrier would have to be performed by the customer receiving personnel
- ◆ Empty pallet exchange would have to be coordinated
- ◆ First pick up by Customer would be after 5:00 PM, with strict pick-up time parameters

RJR Backhaul: Position (continued)

- ◆ Revenue earned by Pick Up Customer estimated at 2.5¢ per Carton (excluding insurance costs, transportation and labor)
- ◆ Since most Public Warehouses derive their profit from transportation revenue and not warehousing, the cost to RJR on remaining deliveries would increase

Backhaul: Synopsis

- ◆ Not all States allow Customer Pick Up which would result in cost inequities within our customer base
- ◆ Estimated gross revenue gain for our Direct Accounts of 2.5¢ per Carton does not justify time and expense
- ◆ Insurance, transportation, labor and additional security will add costs to our Direct Accounts offsetting most, if not all, of the estimated 2.5¢ per carton
- ◆ A singular account backhaul out of one public warehouse would reduce the critical mass increasing RJR delivery cost per case on remaining deliveries
- ◆ **Backhaul, at this time, does not have the critical mass to reduce costs to RJR** ⁸

Backhaul: Next Steps

- ◆ Provide Field Managers with a clear understanding of RJR's position on Backhaul via placement of this recap in C.A.P.S.
- ◆ In addition, review with KAM's and AM's during Winston-Salem based training sessions

Profitability Analysis

Gross Estimated Pick-up Revenue	\$0.025 Per Carton/ Truck Load
Insurance	(0.0013)
Transportation	(0.0033)
Labor	<u>(0.0037)</u>
Hypothetical Net Income to Direct	\$0.0167 Per Carton/ Truck Load

Note: Still not feasible to RJR until/unless critical mass of backhaul is in effect.

Backhaul Assumptions

- ◆ Truck Load: 750 (12M) cases palletized
- ◆ Insurance: \$60.00 Per Truck Load
- ◆ Transportation: 60 Miles @ \$2.50 Per Mile
- ◆ Labor: 5.5 Hours @ \$30.00 P/ Hr. (1 Person)
- ◆ Time Parameters: 2.0 Hours Load Time
2.0 Hours Unload Time
1.5 Hours Drive Time